aviso wealth

OnPoint Managed Portfolios

Addenda Balanced

Quick facts

Inception date:
March 31, 2015

Asset class:
Balanced

Minimum investment:
$100,000

Avg. number of holdings:
20–35

Investment manager:
Addenda Capital

Investment manager assets under management:
$38B

Portfolio risk:

Medium

OnPoint Managed Portfolios are distributed by *Credential Qtrade Securities Inc.*

What does the Portfolio invest in?

The portfolio invests in a diversified portfolio of Canadian and foreign equity securities, fixed-income securities, exchange traded funds (ETFs), and money market instruments and/or cash equivalents.

Asset allocations

Asset class	Min	Target	Current	Max
Canadian equities	20%	30%	37%	40%
Non-Canadian equities	20%	30%	31%	40%
Fixed income	20%	37%	29%*	60%
Cash & cash equivalents	1%	3%	3%	10%

- Equities: the minimum market capitalization will be $1 billion dollars (CAD and/or USD equivalent) at the time of purchase and invested in at least six out of 11 GICS (Global Industry Classification Standard Sectors).
  - Canadian equities: Target 10–15 securities
  - Non-Canadian equities: Target 10–15 securities
- Fixed income: 20% to 60% in units of the Addenda Universe Core Bond pooled fund and/or Canadian fixed income ETFs will be used
- Addenda Preferred Share Pooled Fund may be used

Suitable for investors whose objective is to achieve long-term capital growth, and is not intended for investors with a short-term investment horizon.

Top ten holdings (excluding cash and cash equivalents)

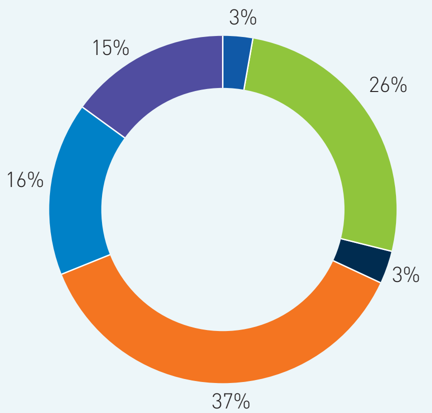
1. Addenda Bonds Universe Core Pooled Fund 25.5%
2. Toronto Dominion Bank 5.9%
3. Bank of Nova Scotia 4.4%
4. Constellation Software 3.3%
5. Brookfield Asset Management 3.1%
6. Linde PLC 3.0%
7. Addenda Preferred Share Pooled Fund 2.9%
8. Unitedhealth Group 2.7%
9. Canadian Natural Resources 2.7%
10. SAP 2.6%

Performance

	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	7.3%	17.4%	17.4%	13.5%	9.8%	8.6%
Benchmark	5.2%	13.0%	13.0%	13.1%	9.0%	7.7%

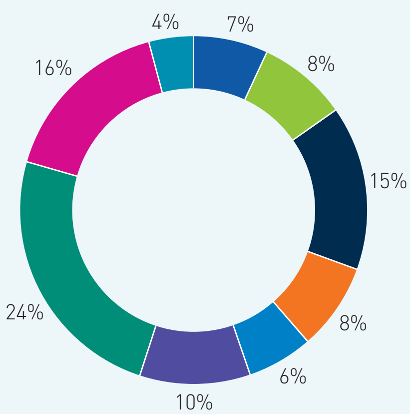
*including 3% in Addenda Preferred Share Pooled Fund

Asset allocation[1,2]



- Cash
- Fixed income
- Canadian preferred shares
- Canadian equities
- US equities
- International equities

Equities sector allocation[1,3]

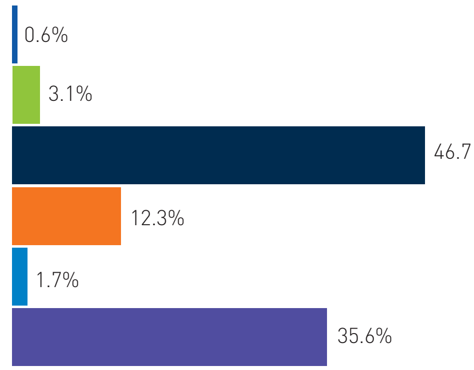


- Energy
- Materials
- Industrials
- Consumer discretionary
- Consumer staples
- Health care
- Financials
- Information technology
- Communication services

Average market cap.
(Equities Only) $177.1B

Fixed income allocation

Core Bond Pool sector allocation



Credit quality	Portfolio (%)
AAA	13.7
AA	38.6
A	26.1
BBB	17.9
Non-rated securities (commercial mortgages)	3.1
Cash and money market	0.6
	100.0

- Cash and money market
- Commercial mortgages
- Corporate bonds
- Federal bonds
- Municipal bonds
- Provincial bonds

Current yield (bonds): 2.83%

Repositioning for Q1 2022

Sold or reduced positions (-4.9%)

- Sold iShares S&P/TSX 60 Index ETF (XIU)
- Trimmed Brookfield Asset Management
- Trimmed WSP Global
- Trimmed CN Rail
- Trimmed Experian
- Trimmed cash

Bought or increased positions (+4.9%)

- Increased CP Rail
- Increased Global Payments Inc.
- Increased Addenda Bonds Universe Core pooled fund

Rationale:

- Addenda's asset mix committee has chosen to reduce exposure to Canadian equities after strong performance in 2021. The risk/reward currently favours a slightly more conservative approach as both fiscal and monetary policies are tightening and the outlook for earnings growth has reverted back to its long-term average (5-10% EPS growth).
- To reduce Canadian equity exposure, XIU was eliminated (an Index ETF benchmarked against the S&P/TSX 60) as it is a passive investment that is used to fine tune the overall equity allocation.
- Brookfield Asset Management and WSP Global were reduced as both companies have enjoyed tremendous performance over the past two years and it was prudent to rebalance somewhat to their original weights. The manager continues to like both fundamentally. The trades were purely a profit taking exercise and an attempt to optimize the risk/reward characteristics of the portfolio in the beginning of 2022.
- The last trade of reducing CN Rail (CN) to add to CP Rail (CP) was a continuation of a trade that was initiated last quarter. In the short run, CN should benefit from an activist shareholder and the lack of any M&A headwinds, whereas in the long run, the manager favours CP.
- CP has lagged significantly of late as they are in the process of acquiring Kansas City Southern, which entails a lengthy regulatory review of up to twelve months. The timing and additional debt required to fund the transaction will be a headwind in the short run. However, the manager is excited about the long-term prospects that the combined entity offers, hence employing the gradual approach. The manager's internal assessment of intrinsic value finds both rails to offer attractive risk/reward, but CP stands out especially if the Kansas City Southern deal is assumed to be completed. For that reason, the manager will continue to monitor progress on deal completion and adjust the weightings accordingly.
- On the global equity component, the manager continues to have high conviction in Global Payments Inc. (GPN) – a position initiated last quarter. Profits were taken from Experian to continue to add to GPN allocation.

Quarterly **commentary**

Equity investor optimism drove strong fourth quarter performance despite some increased market volatility in December due to uncertainty surrounding the impact from the Omicron variant and rising short-term interest rates. The Federal Reserve and other Central Banks acknowledged positive economic progress and upward inflation pressures by announcing an accelerated taper of their bond purchase programs and pulled forward potential interest rate increases which put upward pressure on short-term interest rates. Within bonds, corporate spreads widened in December as equity markets were volatile but closed the year at similar levels to where they started in January. Canadian equities provided gains driven by strong performance from the Materials, Financials, and Real Estate sub-sectors, although these increases were somewhat offset by negative returns in Health Care and Information Technology. Global equities delivered very positive returns overall driven primarily from US equities. Information Technologies, Utilities and Real Estate were the strongest performing sectors. The relevant index returns for this Portfolio in the fourth quarter were: S&P/TSX 60 Index (7.75%), the MSCI World Index (CA$) (7.45%) and the FTSE Canada Universe Bond Index (1.47%).

The Portfolio finished the year on a strong note, returning 7.3% during the fourth quarter and exceeding its benchmark by 2.11%. This helped bring the one-year return to 17.4%, which outperformed its market benchmark by over 4%. Outperformance during the quarter was largely driven by the tactical asset allocation decisions, notably the overweight in equities which continued their march higher. The corresponding underweight to fixed income further added value as a rise in short-term interest rates caused that asset class to trail equity markets. Within the underlying components, the Canadian and global equity components outperformed their respective benchmarks by a wide margin. The core fixed income component also outperformed as the longer-than-benchmark duration benefited from a flattening in the yield curve.

Looking forward, global growth should continue above longer-term trends supported by fiscal stimulus and historically high savings rate. In addition, unemployment will continue to fall, and dislocations in the labour force should be alleviated as the participation rate rises. The manager expects growth will be primarily driven by the consumer and government sectors, although supported by positive business investment. 2022 will be a transition year as central banks reduce bond purchase programs and move towards raising administered policy rates. Corporate profits will continue to grow in 2022; although rising interest rates and stretched valuations make markets potentially more volatile. As such, the asset mix will continue to be cautiously optimistic positioned with a modest overweight to stocks and a corresponding underweight in fixed income securities.

About Aviso Wealth

Owned by credit unions, Aviso Wealth Inc. is one of Canada's largest independent wealth management firms, serving virtually all of Canada's credit unions and a range of independent financial organizations.

With over $100 billion of assets under administration and management, Aviso Wealth has the resources to bring compelling products and services to credit unions and their members, along with the scale, stability and financial strength of an established national wealth manager.

You can invest with confidence, with Aviso Wealth.

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Investment manager overview

ADDENDA CAPITAL

Addenda Capital is an investment management firm providing solutions for institutional and high net worth clients. They offer clients expert services in a broad range of asset classes. Addenda's mission is to add value through innovation, discipline and integrity, and to nurture genuine partnerships with their clients.

Management style

Canadian Equities (Value)	Global Equities (GARP[4])	Fixed Income (Core)

Investment philosophy

Addenda provides a balanced investment strategy that seeks long-term capital appreciation and enhanced diversification through exposure to high quality fixed income and equity securities. A disciplined, dynamic asset allocation approach, blending top-down and bottom-up assessments seeks to exploit market opportunities through tactical shifts. Addenda's committee-based decision-making process leverages the firm's diversity of expertise. Their Asset Allocation Committee, led by the co-CIO, consists of those responsible for each asset class as well as their dedicated economic research team.

Investment process and risk controls

- Extensive top-down analysis of global macro-economic variables and capital markets serve to identify general investment themes and changes in market drivers on a quarterly basis. Forward-looking views, based against a 12-to 24-month horizon, reflect return and risk expectations, as well as relative valuations.
- Changes in asset mix, when triggered, seek to exploit shifting dynamics in the market environment and/ or valuations.
- Addenda's actively managed bond and equity investment strategies leverage extensive fundamental research capabilities. Their bond strategy utilizes a multi-strategy approach to exploit diverse alpha sources, while equity strategies are driven by in-depth bottom-up security analysis as well as industry fundamentals. The process favors stocks with consistent earnings and free cash flow growth.

Key strengths

- Adding value through innovation and discipline
- Strong team work, rich insights
- Leveraging extensive fundamental research capabilities
- Guided by strong governance and sound judgement
- A culture based on integrity
- Environmental, social and governance (ESG) criteria inherent in the investment philosophy[5]
- Addenda is a United Nations Principles for Responsible Investment (PRI) signatory

[1] As of January 10, 2022 after quarterly rebalancing unless otherwise stated.

[2] Includes iShares S&P/TSX 60 Index ETF & SPDR S&P 500 ETF.

[3] Excludes iShares S&P/TSX 60 Index ETF, SPDR S&P 500 ETF & Canadian Preferred Shares

[4] GARP (Growth at a reasonable price)

[5] Tobacco and weapons companies are screened-out of portfolios. Tobacco: Exclude tobacco companies and companies that derive a material portion of their revenue from tobacco-related products such as filters, rolling papers or packaging, or from the sale of tobacco or tobacco-related products. Applies to equity holdings only. Weapons: Exclude companies that derive revenue from military contracts that violate International Humanitarian Law (IHL), and nuclear weapons contracts; companies that derive a material portion of their revenue from the manufacture of legal weapons systems and/or tailor-made components for these weapons systems; and companies whose activities are connected with the manufacturing of automatic or semi-automatic weapons intended for civilian use, or derive a material portion of their revenue from the sale or distribution of such weapons. Applies to equity holdings only.

Indicated rates of return are calculated using the time-weighted rate of return methodology for the period ended, December 31, 2021, and do not take into account management expenses, custodial fees, account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns.

Benchmark Index: 40% FTSE TMX Canada Universe Bond/30% S&P/TSX 60/30% MSCI World Net (CAD).

Please be advised that the information contained herein does not constitute investment advice and it should not be relied on as such. Past performance is no guarantee of future results. The information contained in this report was obtained from sources believed to be reliable; however, we cannot guarantee that it is accurate or complete.

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